

# KENTUCKY DEPARTMENT OF EDUCATION (KDE)

DISTRICT FUNDING AND REPORTING BRANCH

DISTRICT FINANCIAL MANAGEMENT BRANCH

## FINANCE NEWSLETTER

March/April 2013



### **Dates to Remember:**

March 1 – Exposure Calculation Report to be posted to Web

April 1 – Audit Contract available

May 8,9,10 – KASBO

May 31 – Capital Fund request due

July 1 – Fidelity (Performance) Bonds for FY 2013-2014 due

July 1 – Update Penal Sum and Collateral Market Value due

July 1 – Chart of Accounts Update goes active

July 1 – Redbook goes live



### **Fidelity (Performance) Bonds**

This is a reminder that the Fidelity (Performance) Bonds for Fiscal Year 2013-2014 are due to the Kentucky Department of Education by July 1, 2013, and are required to be approved by the commissioner of education. The Exposure Calculation Report for FY 2013-2014 will be posted to the website on March 1, 2013.

Please refer to the “Bonds” Web page “Fidelity (Performance) Bond” section for all forms, instructions and reports:

<http://education.ky.gov/districts/FinRept/Pages/Bonds.aspx>

If you have any questions, please contact Gail Cox at (502) 564-3846 or [Gail.Cox@education.ky.gov](mailto:Gail.Cox@education.ky.gov).



## **Bond of Depository – NEW PROCESS**

For FY 2013-2014, the “Bond of Depository” will have a **NEW PROCESS** in place. Districts will be submitting the FY 2013-2014 “Bond of Depository” information through the SEEK Application “Bond of Depository” **new** Web form. KDE will convert the districts’ current bonds and load them into the **new** Web form. For FY 2013-2014, each district will need to review and update its current bond information already posted in the Web base system or submit new bond information. Each year the districts will need to update their Penal Sum and Collateral Market Value by July 1. The districts are to **maintain** all hard copy documentation at the local board of education. More information on the new process will be communicated to districts and posted to the below Web page in the next couple of months.

Please refer to the “Bonds” Web page “Bond of Depository” section for all forms, instructions and reports:

<http://education.ky.gov/districts/FinRept/Pages/Bonds.aspx>

If you have any questions, please contact Gail Cox at (502) 564-3846 or [Gail.Cox@education.ky.gov](mailto:Gail.Cox@education.ky.gov).

## **Finance Officer Certification – Update**

KDE is exploring the possibility of a certification program for school district finance officers. The central notion is to require certain education and/or experience to become initially certified and a continuing-education requirement (similar to the process already in place) to annually renew the certification. This certification would not take the place of the Gatton program. The continuing-education requirement would not be in addition to the 42 hours currently required.

A committee to study the issues has been formed and is composed of finance officers, OEA, Gatton and KDE staff. In addition, you will soon receive a survey asking for the current requirements for a finance officer in your district.

Please submit your ideas and comments regarding this topic to Susan Barkley at [Susan.Barkley@education.ky.gov](mailto:Susan.Barkley@education.ky.gov).



## **Federal Reimbursement Electronic Funds Transfer for School Boards**

For those districts that **do not** send the Federal Reimbursement payments by Electronic Funds Transfer (EFT), **KDE strongly recommends** that these districts follow the steps below to get set up and register to begin sending KDE the Federal Reimbursement payment by EFT.

Steps to get set up for ePAY EFT:

- 1) A primary user and two backups will need to register with Kentucky.gov at <https://secure.kentucky.gov/portal/registration.aspx> to obtain a user ID.
- 2) Complete the [EFT Authorization Form](#). Type in the correct district in the green cell. Fill in contact information and local banking information, and enter the name and user ID for each user who created an account with Kentucky.gov. All applications should be marked as “New Enrollment.”
- 3) Please complete the EFT Authorization form and return via e-mail to Donald Sweasy ([Donald.Sweasy@ky.gov](mailto:Donald.Sweasy@ky.gov)) or by fax to (502) 564-6597 in the Controller’s Office.

Once you have registered and sent your form to the Finance – Controller’s Office, process your payment using the instructions at

<http://education.ky.gov/districts/finrept/documents/obp%20fihb%20gov%20ach%20pay%20guideform.pdf>.

If you have any questions please contact one of the following individuals in the Finance – Controller’s Office:

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## **Chart of Accounts Update Coming July 1, 2013 – Clarification**

KDE will implement revisions to the Chart of Accounts effective July 1, 2013.

Among those changes, Balance Sheet Objects 6140 through 6149 will be deleted. They are currently identified as “user-defined” codes. KDE cannot aggregate data in user-defined codes because each district could be using them for a different purpose. **If you are using 6140-6149 during the year but have no balances in them at year end, you can continue to use them. There would be a problem only if you report a balance at year end in one of those codes.**

If you have questions or concerns regarding any of the upcoming revisions, please contact Susan Barkley and [Susan.Barkley@education.ky.gov](mailto:Susan.Barkley@education.ky.gov).



## **Capital Funds Request (CFR)**

Districts requesting to use Capital Outlay and/or Building funds for operating expenditures must submit a Capital Funds Request (CFR) to the Kentucky Department of Education (KDE) and receive approval prior to fund transfers. For **FY 2013**, all CFRs must be received by KDE **on or before May 31, 2013**, for consideration. KDE will not process or review FY 2014 CFRs until July 1, 2013.

To avoid processing delay, please make sure that all required supporting documents are submitted with complete CFR **by e-mail** to KDE, Division of District Support, Denise Hartsfield at [denise.hartsfield@education.ky.gov](mailto:denise.hartsfield@education.ky.gov). This includes a copy of e-mail approval from the SFCC in cases where districts are requesting to use Escrowed SFCC-Current fund money.

Blank CFR form, instructions and guidelines can be found at <http://education.ky.gov/districts/FinRept/Pages/Capital-Funds-Request.aspx>. Information on the KDE website should answer most questions you may have. Specific questions or inquiries can be addressed to Pari Ziebart at [pari.ziebart@education.ky.gov](mailto:pari.ziebart@education.ky.gov) or (502) 564-3846.

## **Clarification On Recording Lease Payments**

As a reminder, districts are not required to record principal and interest payments on capital leases, such as KISTA bus capital leases or copier capital leases, in the debt service fund (fund 400).

Generally accepted accounting principles (GAAP) allow principal and interest payments on capital leases to be recorded either in the fund in which the lease is recorded or the debt service fund.

Principal and interest payments on **operating** leases are not to be recorded in the debt service fund.

### **How to record KISTA capital lease bus purchases in MUNIS:**

At the inception of the lease, the financing source and the asset must be recorded. Capital leases for the buses must be recorded in the general current expense fund (fund 1) to be captured for the SEEK transportation calculation. Use the following entry:

Dr. Vehicles 0732 (function 2740) (9011096-0732)

Cr. Other financing source – capital lease 5500 (110-5500)

The principal and interest payments made for KISTA bus capital leases may be recorded either in the fund in which the lease is recorded (general current expense fund, see the entry above) or in the debt service fund in accordance with GAAP. Use the following entries, depending on where the district chooses to record the principal and interest payments:

*If capital lease principal and interest payments will be recorded in the general current expense fund (fund 1):*

Dr. KISTA (principal and interest combined) 0839 (function 5100) (0001112-0839)

Cr. Cash 6101 (10-6101)

*If capital lease principal and interest payments will be recorded in the debt service fund (fund 400):*

Dr. KISTA (principal and interest combined) 0839 (function 5100) (0004112-0839)

Cr. Cash 6101 (40-6101)

Other capital leases would be recorded in a similar manner. Districts also should use the following project codes when adding KISTA leases in MUNIS: use BUS for buses, TECH for technology, and ENE for energy savings.

Please remember that principal and interest payments on bonded indebtedness must be recorded in the debt service fund (fund 400) and that fund 410 is an invalid fund.

Any questions should be sent to [finance.reports@education.ky.gov](mailto:finance.reports@education.ky.gov). The subject line should state **KISTA Lease**, and a KDE representative will ensure that you get a response within 24 hours.

## **Redbook Training “On Demand”**

The updated Redbook is on schedule to become effective July 1, 2013, for the 2013-14 school year. KDE will notify districts through the commissioner’s weekly correspondence when the regulation approval process is officially complete. Please continue to use the current version of the Redbook until the revision becomes effective.

KDE will produce videos to assist in training on the updated Redbook requirements. These videos will be accessible from KDE’s website to be used “on demand” by principals, school treasurers, booster groups and others. There will be four videos, each running approximately 20 minutes: *Revisions for FY 14*, *What Boosters Need to Know*, *School Inflows* and *School Outflows*. The videos will be available soon after the regulation is officially approved. We hope this no-cost training option will provide the technical information and convenience needed to successfully implement the revised Redbook in every school across the state.

Thank you to all the district personnel who volunteered their time and expertise to the Redbook project. Thank you also to those who submitted comments and suggestions. Every comment was carefully considered and appreciated.

Direct questions regarding the Redbook to Susan Barkley at [susan.barkley@education.ky.gov](mailto:susan.barkley@education.ky.gov).

## **Should E-Discovery Challenge Recipients Record the Federal Grant at the School or the District Level?**

E-Discovery is an entrepreneurship program provided to districts in Appalachian Kentucky. Although the funds and program are handled through the University of Kentucky, the grant is derived from federal funds. All federal money must be tracked and reported on the Schedule of Expenditures of Federal Awards even if it is coming into the district via a third party.

As with all federal grants, a project number is needed to track receipts and expenditures. The Kentucky Department of Education has assigned project number 637X with the title E-Discovery (via University of KY). Money comes from the Appalachian Regional Commission (ARC) with the Catalog of Federal Domestic Assistance (CFDA) number 23.011. Here is a link for information about this grant:

<http://www.uky.edu/Ag/CLD/KECI/edisc/index.htm>

Some districts may find that this grant is being sent directly to the school and deposited into the school activity account. KRS 160.580 requires all grants be deposited and expended at the district level. Each district needs to review its process and assure that, although the checks may be mailed to the schools, the funds are processed through the district account. Schools still will be able to direct the expenditure of the funds through the requisition/purchase order process.



## **Insured Values Other Structures**

In May 2012, responding to questions from districts, KDE began a conversation with insurance carriers and district finance officers about the replacement insurance value for ancillary buildings such as storage buildings, portable classrooms, bus garages and even some board offices. Some of these buildings are of much less substantial construction than the types noted in the KDE replacement costs that are published annually.

As we began to review these facilities, we agreed that to replace the existing facility would be far less than the annual replacement costs. A review of 702 KAR 3:030, Section 1 notes, “Each such building and its contents shall be insured for an amount equal to 100 percent of the replacement cost thereof as shown on the schedule of values, and each policy covering such buildings and contents shall provide an agreed amount endorsement. The replacement cost of the building shall include the increased cost of construction brought about by code and regulatory changes that have occurred since the original structure was built and which would be required to be incorporated within the rebuilt structure.” By the interpretation of this passage of the regulation, to insure for the actual value of the buildings is all that is necessary and reasonable to meet the regulatory requirements. We also found that most of the insurance carriers within the state had the expertise to make the replacement cost determination that would them need to be agreed upon by the district.

For that reason, the KDE Property Insurance Replacement Costs published for 2013 give the district the option to have these structures, “insured at 100 percent replacement value as determined and agreed upon by the local board of education upon consultation with their insurance provider.” The school buildings must still be insured at the square-foot costs noted, but the change in the cost determination for the auxiliary buildings should provide an equitable solution to the rising costs of insurance while still protecting the district. The new replacement costs can be view at the KDE website at <http://education.ky.gov/districts/fac/Pages/default.aspx>.

## **Reminders for BG-1s**

Districts that do not anticipate receiving money and/or supporting documentation from their insurance company prior to requesting KDE approval to use Insurance Proceeds on a BG-1 Facilities project should request approval to use General Funds on the BG-1, since KDE will not have documentation to substantiate and approve Insurance Proceeds being available for use.

Please forward any questions to Jeffrey Coulter at [jeffrey.coulter@education.ky.gov](mailto:jeffrey.coulter@education.ky.gov), Ken Smith at [ken.smith@education.ky.gov](mailto:ken.smith@education.ky.gov), Pari Ziebart at [pari.ziebart@education.ky.gov](mailto:pari.ziebart@education.ky.gov) or call (502) 564-3846.

## **Revenue/Refunding Bond Document(s) Reminder**

This is a reminder for districts who are selling refunding or revenue bonds to please verify with your fiscal agents to ensure that the required bond sale documents listed below have been submitted for review and approval to KDE's District Financial Management Branch **a minimum of 10 working days prior to the scheduled bond sale date.**

### **Required Bond Sale documents:**

1. preliminary official statement (fiscal agent)
2. notice of bond sale (bond attorney)
3. official terms and conditions (fiscal agent)
4. plans of financing (fiscal agent)

The board shall contract with a fiscal agent to assist in meeting all reporting, filing and selling requirements for securing the financial approval of KDE when school revenue/refunding bonds are proposed for sale.

Additionally, districts wishing to sell refunding bonds, KDE uses a 5 percent net present value savings as the industry standard in determining whether or not a refunding bond will be approved. Accordingly, please work with fiscal agents to ensure that the 5 percent net present value savings is being met.

Please forward any questions to Jeffrey Coulter at [jeffrey.coulter@education.ky.gov](mailto:jeffrey.coulter@education.ky.gov) or Ken Smith at [ken.smith@education.ky.gov](mailto:ken.smith@education.ky.gov), or call (502) 564-3846.

## **AFRS and Audit Reports**

It is essential that the audit report submitted to KDE by the district's auditor and the annual financial report (AFR) submitted by the district agree in amount. The financial statements, both in the audit report and comprising the AFR, are the responsibility of the school district, and there should be no differences in amounts. KDE reviews all audit reports and AFRs to verify that they agree. If differences are found, the district and/or auditor are required to reconcile and correct the differences and resubmit the AFR and/or audit report. The Statement of Certification that is included in the audit contract package is required to be signed by the district's finance officer and superintendent and states that the AFR and the audit report agree.

Please forward any AFR or Audit Report questions to Ken Smith at [ken.smith@education.ky.gov](mailto:ken.smith@education.ky.gov) or (502) 564-3846.



## **Audit Contract**

The fiscal year 2012-13 audit contract will be reviewed by the State Committee for School District Audits at its next meeting March 14, 2013. The audit contract will be available on KDE's website after it is approved by the committee around April 1, 2013. Please remember that the contract is valid for only one year for the audit of the 2012-13 fiscal year only.

Please forward any audit contract questions to Ken Smith at [ken.smith@education.ky.gov](mailto:ken.smith@education.ky.gov) or (502) 564-3846.

## **On Behalf Payments**

Debt service and technology on behalf payments are required to be reported in districts' annual financial reports (AFR) and audit reports for fiscal year 2012-13. The amounts for each district will be reported on KDE's website in July. Reporting these amounts was recommended, but not required, for the 2011-12 fiscal year.

Please forward any on behalf payment questions to Ken Smith at [ken.smith@education.ky.gov](mailto:ken.smith@education.ky.gov) or (502) 564-4403, ext. 4442, or Gail Cox at [gail.cox@education.ky.gov](mailto:gail.cox@education.ky.gov) or (502) 564-3846.



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